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Three Former Gen Re And One Former AIG Senior Executives Charged in Connection with Fraud Scheme

WASHINGTON, D.C. – A federal grand jury in Norfolk, Va., has indicted three former senior executives of General Re Corporation (Gen Re) and one former senior executive of American International Group, Inc. (AIG) on charges relating to a fraudulent scheme to manipulate AIG's financial statements, the Department of Justice announced today.

The indictment charges each of the following individuals with one count of conspiracy to commit securities fraud, four counts of securities fraud, two counts of causing false statements to be made to the Securities and Exchange Commission (SEC), four counts of wire fraud and two counts of mail fraud:

-Ronald E. Ferguson, 63, of Fairfield, Conn., who was Gen Re's chief executive officer from about 1987 through September 2001;

-Elizabeth Monrad, 51, of New Canaan, Conn., who was Gen Re's chief financial officer from about June 2000 through July 2003;

-Christian Milton, 58, of Winnewood, Pa., who was AIG's vice president of reinsurance from about April 1982 until March 2005; and,

-Robert Graham, 57, of Westport, Conn., who was a Gen Re senior vice president and assistant general counsel employed by Gen Re from about 1986 through October 2005.

The indictment charges that the defendants engaged in a fraudulent scheme to make it appear as though AIG increased its loss reserves, a key financial indicator to analysts and investors. At issue are two sham reinsurance transactions between subsidiaries of AIG and Gen Re that were initiated by an AIG senior executive to quell criticism by analysts of an approximate \$59 million reduction in AIG's loss reserves in the third quarter of 2000.

According to the indictment, these phony transactions made it falsely appear as though AIG had increased its loss reserves by \$250 million in the fourth quarter of 2000 and by an additional \$250 million in the first quarter of 2001. Without the fake loss reserves added to AIG's balance sheet, AIG's earnings release would have shown greater reductions in loss reserves for both quarters, instead of the increased loss reserves touted by AIG in its earnings releases. In a restatement filed last year with the SEC, AIG reversed and restated the entries relating to these transactions.

"This indictment sends a clear message to corporate America that executives will be brought to justice not only for cooking their own company's books, but also for knowingly helping their counterparts at other companies do the same," said Acting Deputy Attorney General McNulty, who chairs the President's Corporate Fraud Task Force.

"Efforts by corporate executives to dupe investors through criminal fraud will be met with criminal charges," said Assistant Attorney General Alice S. Fisher of the Criminal Division. "Corporate executives have a responsibility to their employees, to their investors and to their customers to provide honest and truthful information about their companies in public filings."

"Aggressively investigating corporate executives who decide to build a company's bottom line by defrauding their investors and employees is a priority for the U.S. Postal Inspection Service. It is our duty to protect the American consumer, their financial security and the integrity of our nation's postal system from those who use their corporate positions to deceive," said Chief Postal Inspector Lee R. Heath.

The indictment further alleges that the defendants designed the transactions solely for the purpose of aiding AIG in manipulating its financial statements. The only economic benefit from the transactions to either party was a \$5 million fee AIG paid to Gen Re for putting the deal together, which was an undisclosed side agreement. The parties agreed in another undisclosed side agreement that AIG would never have to pay any losses under the contracts, even though the contracts were written to appear as if AIG could incur \$100 million in losses. Further, the premiums supposedly due AIG under the terms of the contracts were an illusion. In a round trip of cash, AIG gave Gen Re the money to pay the \$10 million in premiums as part of another secret side agreement. The defendants allegedly masked the reason for the transfer of funds between AIG and Gen Re pursuant to these side agreements. The defendants also allegedly participated in creating a phony paper trail for the two transactions to make it appear as though Gen Re had solicited the reinsurance when all parties knew AIG sought the deal to manipulate its financial statements.

Each of the defendants was aware that the true purpose of the transactions was to permit AIG to record and report loss reserves that it did not really have to calm analyst criticism of AIG's reduction in loss reserves in the third quarter of 2000. Nevertheless, as alleged in the indictment, each of them knowingly took steps to help AIG accomplish its fraudulent purpose.

If convicted of all the charges in the indictment, the defendants each face a maximum of 95 years in prison and more than \$7 million in fines.

Criminal indictments are only charges and not evidence of guilt. All defendants are presumed innocent unless and until proven guilty in a court of law. In June 2005, two senior Gen Re executives, John Houldsworth and Richard Napier, each pleaded guilty to conspiracy to falsify SEC filings in connection with this investigation.

This case is being prosecuted by the Fraud Section of the Criminal Division at the U.S. Department of Justice and the U.S. Attorney's Office for the Eastern District of Virginia. The investigation was conducted by the U.S. Postal Inspection Service.

The case is being handled by Assistant U.S. Attorneys Ray Patricco and Michael Dry of the U.S. Attorney's Office for the Eastern District of Virginia, and Trial Attorney Colleen Conry and Special Attorney Eva Saketkoo of the Fraud Section, headed by Acting Chief Paul E. Pelletier.

In a related civil case brought today by the SEC, the defendants were charged with aiding and abetting AIG's violations of the anti-fraud, reporting and other provisions of the federal securities laws.

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